

**NORTH
CANADIAN
OILS LIMITED**



Annual Report 1976

THE COMPANY

North Canadian Oils Limited is an Alberta-based company engaged in exploration for oil, natural gas and other minerals, in Canada and abroad, and the development of these resources. The Company owns and operates extensive gas producing properties in Alberta and Saskatchewan. Other assets include a 136-mile gas transmission line, varying interests in 8.8 million acres of prospective exploration lands, substantial coal reserves in Alberta and a \$12-million equity investment in a major United States forest products company. Principal sources of revenue in 1976 were gas production (71%), pipeline (17%) and oil production (3%). Investments and other sources accounted for the remaining (9%). Shares of the Company are traded on the American and Toronto Stock Exchanges.

ANNUAL MEETING

The 1977 annual meeting of shareholders will be held Wednesday, May 11, 1977 at 10:30 a.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are requested to sign and return their proxies without delay.

THE YEAR AT A GLANCE

Financial

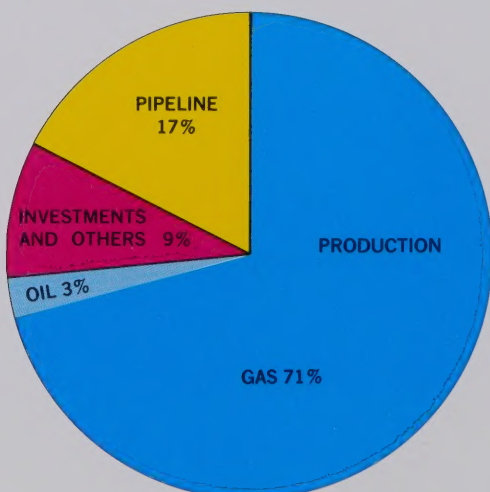
	1976	1975
Gross Revenue (before royalty)	\$12,493,000	\$10,030,000
Cash Flow (after royalties, cost of product, operating, administrative and interest expenses)	7,590,000	5,760,000
Net Income before extraordinary item	4,675,000	3,277,000
Per Share (after provision for preferred share dividend)	81c	56c
Net Income after extraordinary item	5,401,000	3,277,000
Per Share (after provision for preferred share dividend)	94c	56c
Exploration Expenditures	1,417,000	1,502,000
Development Expenditures	2,780,000	1,122,000
Shareholders' Equity	29,816,000	24,520,000

Operating

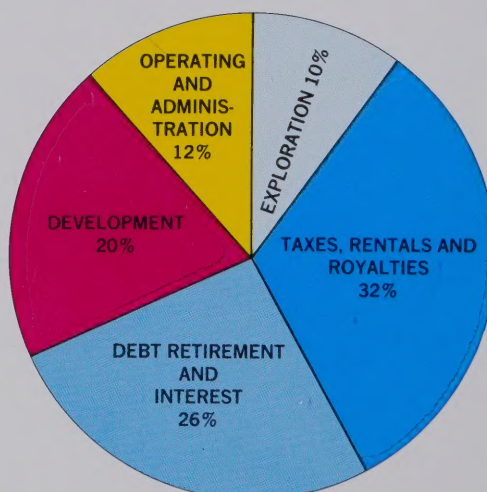
Natural Gas Production — billion cubic feet ..	17.3	18.8
Average per day — million cubic feet	47.4	51.5
Pipeline —		
Annual throughput, billion cubic feet	6.5	6.0
Oil Production — barrels	45,600	52,500

Estimated Gross Proven Recoverable Reserves — January 1, 1977

GAS	710 Billion cu. ft.
OIL	401 Thousand Bbls.



REVENUE



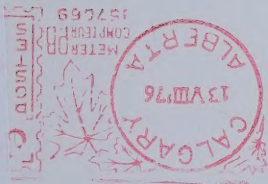
EXPENDITURES

STATEMENT OF INCOME
for the six months ended June 30, 1976
(with comparative figures for 1975)

	1976	1975
Revenue		
Sale of gas and oil	\$5,321,000	\$4,329,000
Less royalties	1,122,000	674,000
	<u>4,199,000</u>	<u>3,655,000</u>
Investment income	384,000	451,000
Building rental & miscellaneous	79,000	56,000
	<u>4,662,000</u>	<u>4,162,000</u>
Costs and Expenses		
Cost of gas purchased	256,000	570,000
Operating	659,000	611,000
Administration and general	125,000	135,000
Interest	119,000	215,000
	<u>1,159,000</u>	<u>1,531,000</u>
	<u>3,503,000</u>	<u>2,631,000</u>
Depreciation and depletion	396,000	387,000
Income before income taxes	3,107,000	2,244,000
Provision for income taxes		
Current	678,000	600,000
Deferred	<u>264,000</u>	<u>200,000</u>
Net Income before extraordinary item ...	2,165,000	1,444,000
Gain on sale of securities (after provision for income tax)	530,000	—
Net Income for period ...	<u><u>\$2,695,000</u></u>	<u><u>\$1,444,000</u></u>
Earnings per common share		
Before extraordinary item	38c	25c
After extraordinary item	47c	25c

The above financial information is unaudited.

AR18



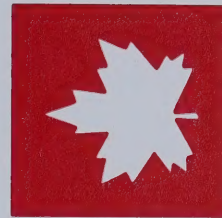
FIRST CLASS

Business Editor
Globe and Mail Report on Business
444 Front Street West
Toronto, Ontario M5V 2S9

G.W.L.

**NORTH
CANADIAN**
Oils Limited ☐ A Natural Resource Company

INTERIM REPORT



for the six months ended
JUNE 30, 1976

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended June 30, 1976
(with comparative figures for 1975)

TO THE SHAREHOLDERS:

Continuing the trend of the first quarter, North Canadian's revenue and earnings for the six month period ending June 30, showed substantial improvement over last year. Gross operating revenue, up by nearly 20%, was \$5,784,000. In addition, over \$4,000,000 was received from the sale of securities from which the Company realized a capital gain of \$692,000. Net income, including the capital gain, was \$2,695,000 or 47¢ a share compared to \$1,444,000 or 25¢ a share in 1975. Cash flow, after provision for current income tax, was \$3,355,000. The Company's net working capital on June 30, was \$5,184,000 compared to \$581,000 at the end of 1975.

Effective July 1, 1976, the price of Alberta natural gas delivered at the Toronto city gate was raised from \$1.25 to \$1.40½ per thousand cubic feet, with another 10¢ to be added on January 1. On September 1, the price of gas exported to the United States will be increased from the present \$1.60 to \$1.97 per thousand cubic feet. The combined effect of these changes on the wellhead price of gas will be an increase of between 25¢ and 30¢ per thousand cubic feet for Alberta producers. It is estimated that by the year end North Canadian will be producing approximately 22 million cubic feet of gas per day in Alberta. Also, it is understood that a price increase has been approved for Saskatchewan producers, although the details have not yet been announced. In view of the Company's annual sales of 11.7 billion cubic feet to the Saskatchewan Power Corporation, any reasonable price increase will be of significant benefit.

In response to the higher Alberta gas prices, North Canadian is now drilling an additional 52 wells on its producing properties at Atlee Buffalo. With 25 wells drilled to date it is expected that this major development program, which includes the extension of the existing field gathering system and installation of additional compression facilities, will be completed by mid November.

Good progress is being made on the Company's exploration program off the southeastern coast of India. Following the processing and evaluation of the initial 3,100 miles of seismic data, approval has been given for an additional 1,400 miles of detailed shooting which is now being conducted. Selection of the first drilling location on the 8.5 million acre drilling concession is to be made late this year.

North Canadian was advised June 2, 1976, by the federal government's Foreign Investment Review Agency that it has been designated as an "eligible person" company. The significance of this ruling is that despite the Company's large number of U. S. shareholders, North Canadian is now eligible to acquire Canadian companies or properties without the acquisitions being subject to screening by FIRA. This favorable ruling could prove to be of material advantage in the Company's long range plans.

The Company has dropped its option to acquire an interest in the Kentucky coal property referred to in the March 31 interim report.

Robert F. Ruben

ROBERT F. RUBEN
President
August 5, 1976

The Common Shares of North Canadian Oils are listed for trading on the American and Toronto Stock Exchanges.

	1976	1975
Source of Funds		
Operations:		
Net income before extraordinary item	\$2,165,000	\$1,444,000
Add items not involving a current outlay of funds:		
Depreciation and depletion	396,000	387,000
Deferred income taxes	264,000	200,000
Gain on disposal of fixed assets	(23,000)	—
Funds provided from operations	2,802,000	2,031,000
Gain on sale of securities	530,000	—
Proceeds on sale of fixed assets	30,000	—
Proceeds on issue of Common Shares	59,000	—
Conversion of 6% Convertible note	5,000,000	—
Total funds provided	8,421,000	2,031,000
Use of Funds		
Additions to property, plant & equipment	918,000	460,000
Reduction of long term debt	2,715,000	1,780,000
Redemption of preferred shares	66,000	58,000
Preferred share dividend	45,000	50,000
Additions to other assets	74,000	—
Total funds used	3,818,000	2,348,000
Increase (decrease) in working capital	4,603,000	(317,000)
Working capital at January 1	581,000	747,000
Working capital at June 30	\$5,184,000	\$ 430,000

The above financial information is unaudited



TO THE SHAREHOLDERS:

Financially, 1976 was a very rewarding year for North Canadian Oils. Gross income, cash flow and net profit reached all time highs. Despite a record capital expenditure for development and exploration the Company reduced long term debt by \$3.2 million or nearly 60% and increased net working capital by \$4.3 million.

There were developments during 1976 which could have an important bearing on the course of the Company's future activities. Worthy of note were a major development drilling program at Atlee-Buffalo, completion of a marine seismic program in India, conversion of the St. Regis notes into common shares and a developing surplus of natural gas in Alberta.

The 54-well drilling program at Atlee-Buffalo was the second largest development program ever undertaken by the Company in a single year. Aside from its size, it was of special significance in that it involved, for the first time on any of the Company's producing properties, a concept of higher density drilling through a reduction in the field spacing pattern from 640 acres to 320 acres per well. Although it is early to judge the long term effectiveness of the smaller drainage units, production at Atlee-Buffalo has increased nearly 100% since the program was completed in late November. On the basis of these results, it is expected that 320 acre

spacing will be extended to other selected producing areas belonging to the Company.

Results of the marine seismic program in India, which was completed late in 1976, indicated a number of prospective exploration areas within the 8.5 million acre offshore concession in which North Canadian has an interest of approximately 21%. A contract has been let for the first well which will test a sizeable structure in the Gulf of Mannar. The commencement of drilling, scheduled for on or about April 1, has been delayed as the result of an engine room fire aboard the drill ship Glomar IV while enroute to India. It is estimated that 50 to 60 days will be required to drill the well which has a projected total depth of 13,000 feet.

Prompted by concern over the future value of the Canadian dollar, North Canadian elected in July of last year to convert the remaining \$10 million of St. Regis convertible notes into common shares of the St. Regis Paper Company. Earlier in the year, \$5 million of convertible notes received by the Company in 1969 for its interest in North Western Pulp & Power Ltd., had been converted. After selling a portion of the shares received in the initial conversion, North Canadian holds 318,778 shares, which as of this date, are trading in a price range of \$34 to \$36 (U.S.).

A matter of growing concern to Canadian gas producers is a developing surplus of uncommitted natural gas in the province of Alberta. As the result of a dramatic increase in drilling activity over the past year more gas is being discovered and developed than can be absorbed by the present market. While it is widely accepted that the so called "gas bubble" will be of relatively short duration, the fact remains that for the first time in a number of years there is no immediate market for newly discovered Alberta gas.

Although the situation does not warrant a change in the Company's 1977 exploration program in Alberta, consideration is being given to alternative exploration areas, particularly in the United States.

We look with optimism to the coming year. On the strength of higher gas prices in both Alberta and Saskatchewan and an expected increase in production volumes, a material improvement in both revenue and earnings is again projected for North Canadian.

We wish to express our sincere appreciation to two retiring Directors who have served the Company for several years, Mr. Charles M. Hamilton, who resigned from the Board in October and Mr. Ivan Sutherland who has chosen not to stand for reelection.

Subsequent to the year end, resignations were accepted from Messrs. N. B. Keevil Jr., A. Keevil and R. J. Wright, who have served as Directors since October 6, 1976. Appointed to the Board in their place are Messrs. J. F. Kay, J. T. Eyton and H. P. Milavsky, all of whom have been nominated for election to the Board at the annual meeting to be held May 11, 1977.

We again thank our employees for their continued loyalty and for the competent manner in which they have carried out their responsibilities over the past year.

ROBERT F. RUBEN
President and Chief
Executive Officer

March 21, 1977

NORTH WEST TERRITORIES

ALBERTA

SASKATCHEWAN

BRITISH COLUMBIA

MONTANA

NORTH CANADIAN PROPERTIES AND INTERESTS — 1976

-  Petroleum & Natural Gas Lands
-  Current Exploratory Wells
-  Oil Production
-  Gas Production
-  Coal Leases
-  Mining Claims
-  Major Gas Fields
-  Major Oil Fields

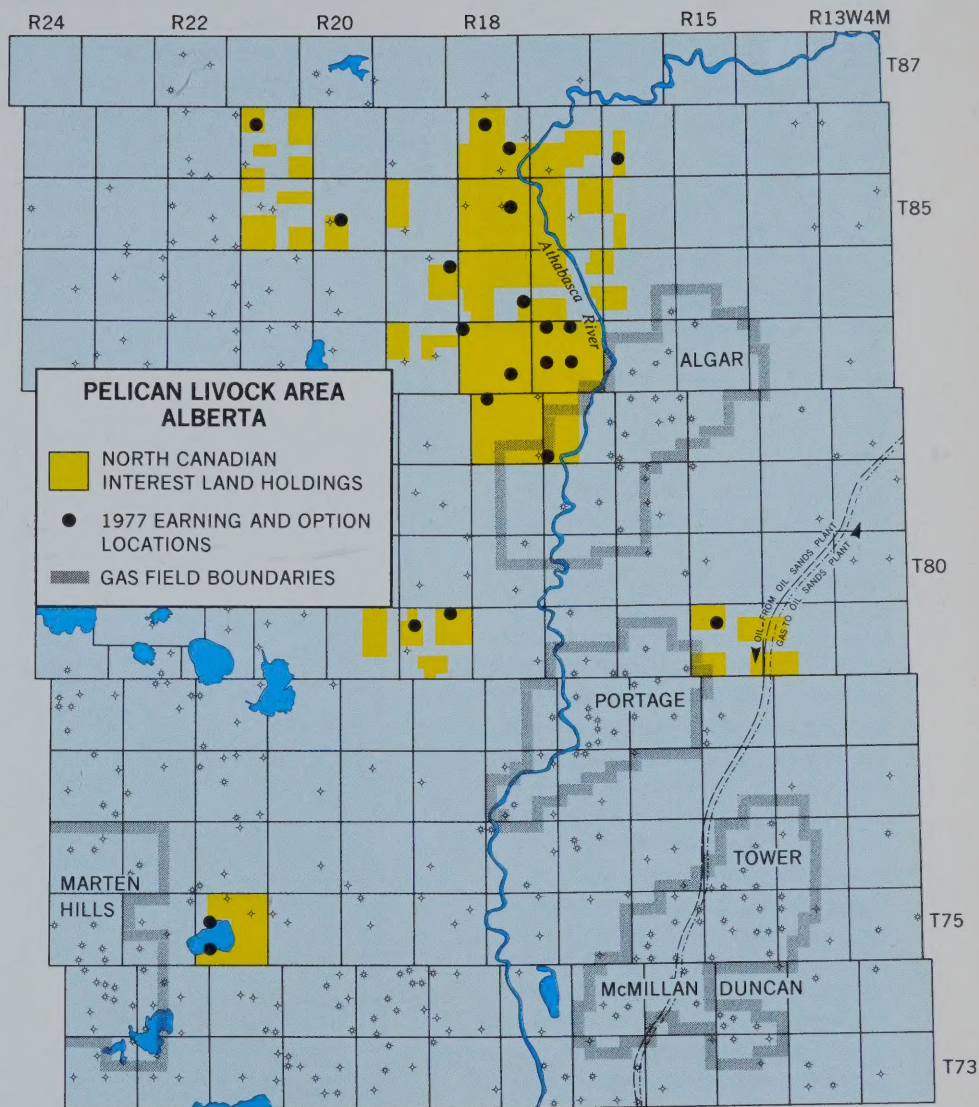
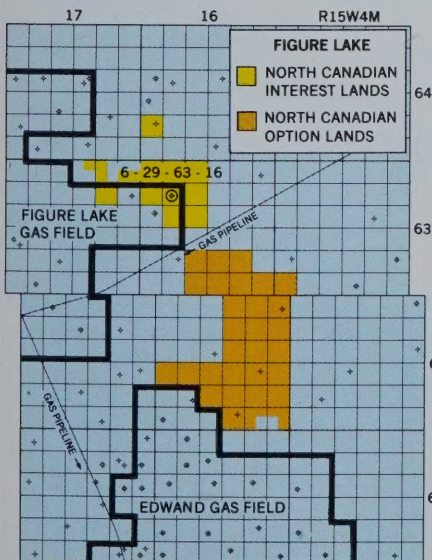




D. F. CHRISTENSEN
Vice-President, Exploration

Exploration

North Canadian participated in the drilling of 17 exploratory wells during 1976. Six of these were drilled by others on company lands at no expense to North Canadian. Three of the wells were confirmed as gas wells, two were cased for further evaluation on the strength of encouraging gas shows and the remainder were abandoned. Many of the geological studies undertaken during 1976 were completed late in the year and will be reflected in a sharp increase in exploration drilling in 1977. It is expected that the Company will drill a minimum of 30 exploratory wells in the coming year.



At Figure Lake in northeastern Alberta, the Company flow tested the 1975 Figure Lake 6-29-63-16 W4M discovery and completed it as a dual zone Cretaceous gas well. The Company presently holds interests of 22% to 42% in 6,550 acres adjoining the discovery and has the opportunity to earn, by further drilling, an interest in an additional 19,000 acres.

In the Pelican-Livock area of north-eastern Alberta, the Company is involved in a twenty-one well shallow

gas exploration venture. Thirteen of the wells had been drilled by mid February, 1977 resulting in eight gas discoveries, two indicated gas wells requiring further evaluation and three dry holes. The total program, which includes five option wells in 1978, will enable North Canadian and its partners to obtain an interest in some 230,000 acres in the multi-zone prospect area.

At the end of 1976 the Company held interests in 327,675 gross acres of undeveloped land in Canada.



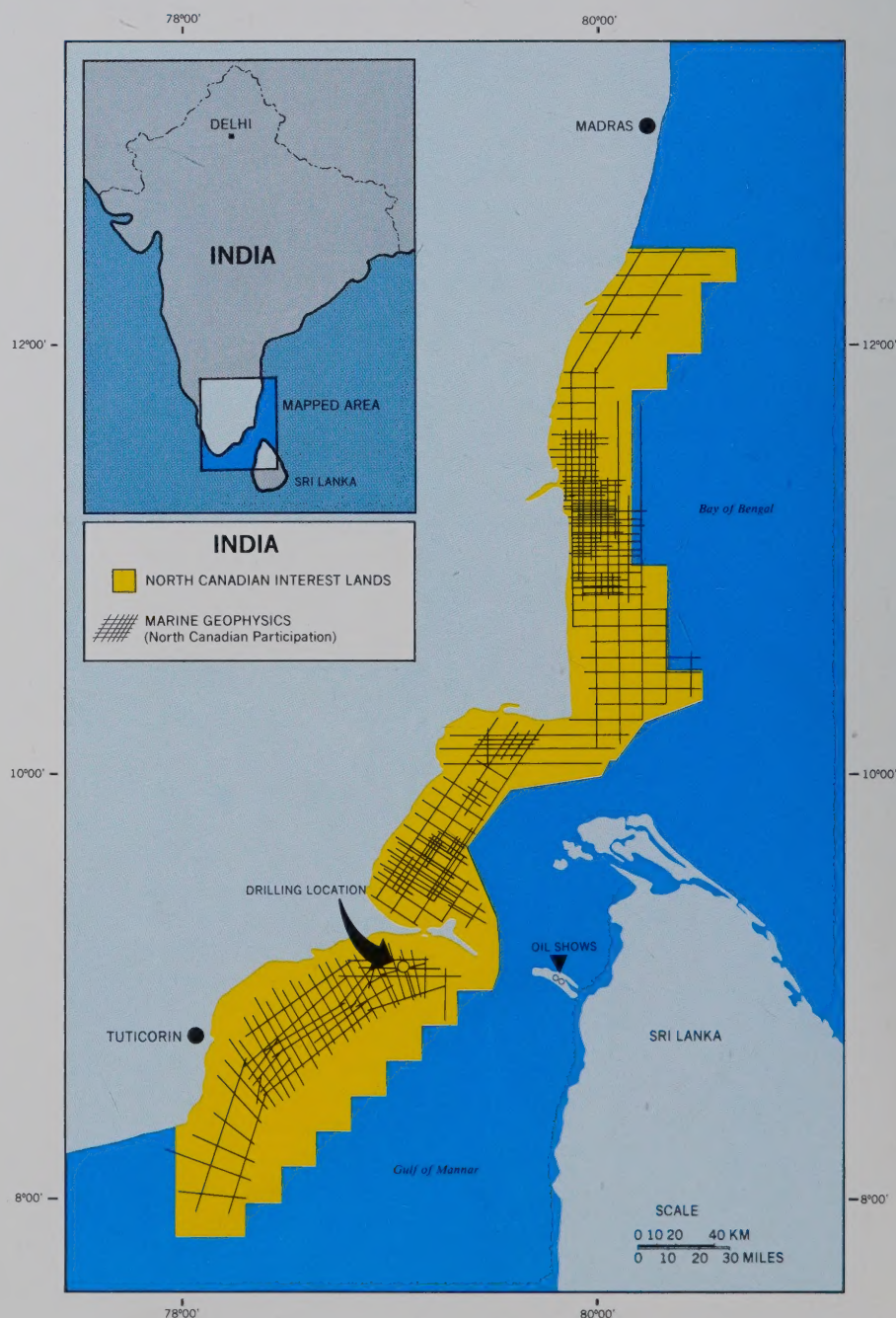
The increasing demand for offshore hydrocarbons in Canada and the United States has added importance to the Company's large salt cavern storage project located adjacent to the Strait of Canso on Cape Breton Island, Nova Scotia. Two exploratory wells drilled on the 36,000 acre permit have found thick salt beds suitable for development of storage caverns. In 1976 Home Oil Company Limited, which has for a number of years been involved in the movement and underground storage of hydrocarbons in Canada and the United States, purchased a 50% interest in this venture from North Canadian and its partner Murphy Oil Company. Now designated as operator, Home Oil is reviewing all aspects of storage, transshipment and marketing of hydrocarbons in the Eastern Seaboard area, and evaluating the further development of the permit block. The Company retains a 25% working interest in the project.

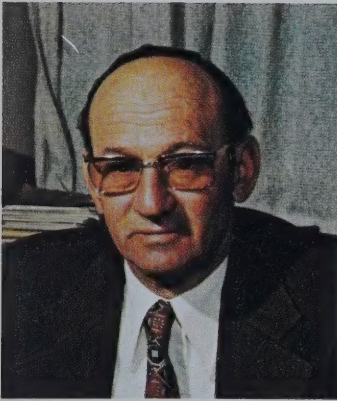
North Canadian Oils Limited, Canadian Superior Oil Ltd. and Asamera Oil Corporation Ltd share equally a 65% working interest in an 8.5 million acre exploration concession located in India waters on the continental shelf between India and Sri

Lanka. The Government of India, through its Oil and Natural Gas Commission holds the remaining 35% working interest in the project and to that extent shares proportionately in the cost and risk of exploration. Forty-six hundred line miles of detailed marine seismic, gravity and magnetic data were acquired from the area during 1976.

Interpretation of this information has identified a number of anomalies.

The first well location was selected at a meeting of the partners in early January. The initial test, situated in the northern portion of the Gulf of Mannar, in 75 feet of water, is expected to penetrate to a depth of 13,000 feet.





NATHAN GOODMAN
Vice-President, Production

PRODUCTION

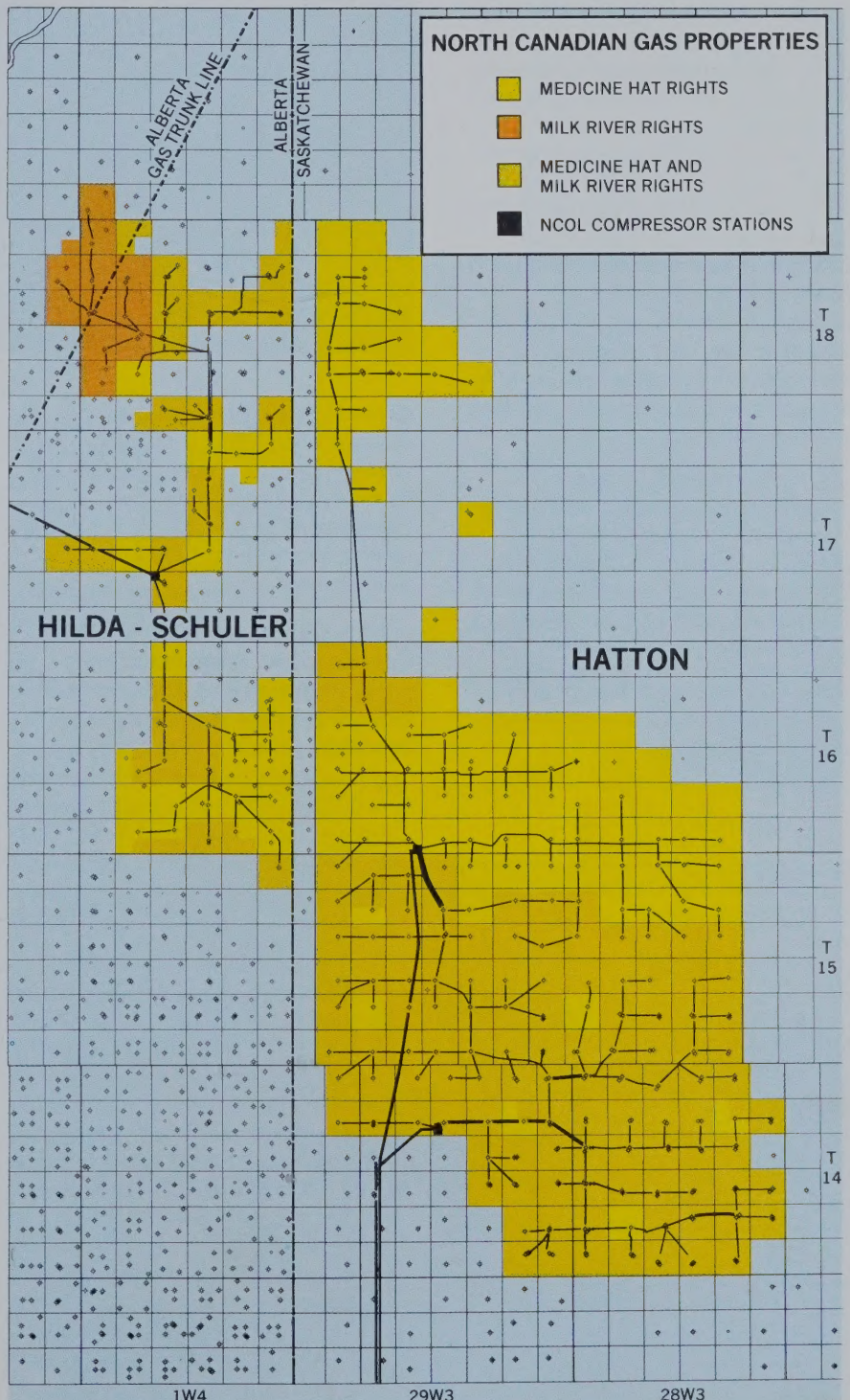
Total gas production in 1976 was down from the previous year approximately 8% or 1.5 billion cubic feet. A portion of the decrease was due to reduced sales to Saskatchewan Power Corporation which, it is expected, will be made up in 1977 under the provisions of the gas purchase agreement. Other contributing factors were a reduction during the year in the Company's participating interest in the Corbett Creek Viking Unit following recovery by North Canadian of its full investment in the project, prolonged mechanical difficulties in the main line serving the Company's Dixonville production and a normal deliverability decline in some of the older producing areas.

It is expected that the Company's gas production in 1977 will show a marked improvement. For the month of January deliveries averaged over 58 million cubic feet per day compared with 53.6 million cubic feet a day in January of 1976.

Oil production, which accounts for approximately 3% of the Company's revenue, averaged 124 barrels a day, as compared to 139 barrels in 1975. The decline was, however, more than offset by an increase of \$1.43 a barrel in the average price received over the year. As at January 1, 1977, the price of oil was \$9.83 a barrel. Another increase in the range of \$1.25 is expected in July.

In keeping with the stated policy of the government of Canada to move the price of domestic oil to world levels and to maintain an equivalent commodity price for gas, prices continued to rise in 1976. The combined weighted average price received over the year by the

Company for gas sales in Alberta and Saskatchewan was approximately 51% higher than in 1975. A further gain of 25 to 30% is projected for 1977. At present the Company is receiving an average weighted price of 64¢ per thousand cubic feet for all of its gas production.



DEVELOPMENT:

The Company's entire development program in 1976 was focused on its producing properties in the Atlee Buffalo gas field of Alberta.

Results of the program, which provided for the drilling of fifty-four wells on 320 acre spacing units and the installation of a second compressor station, appear to be highly satisfactory. Although nine of the new wells have not yet been connected to the field gathering system, company production from the Atlee Buffalo area has nearly doubled since completion of the program in late November and is now at a rate in excess of 12 million cubic feet a day. It is expected that the \$2.7 million invested in the program will be fully recovered in approximately two and one half years.

A similar, though smaller, development program is now being planned for the Company's producing properties in the Hilda - Schuler area of Alberta. It is expected that drilling will be started by the middle of this year.

North Canadian presently owns and operates 423 gas wells in the provinces of Alberta and



Saskatchewan. Predicated on the ultimate adoption of 320 acre spacing units on a major portion of its producing properties, the Company has more than 600 proven drilling locations for future development.

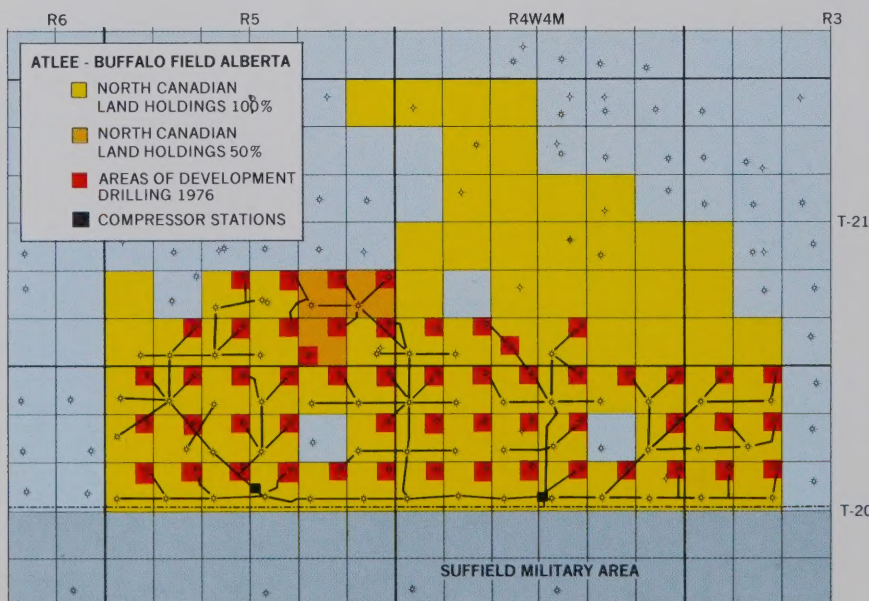
At December 31, 1976, North Canadian Oils' estimated proven gross recoverable reserves were 710 billion cubic feet of gas and 401,000 barrels of oil.

PIPELINE:

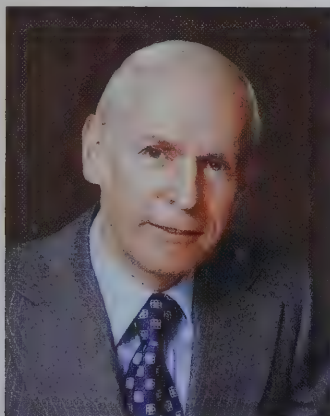
In 1976, as in the past, the Company's Wabamun - Hinton gas pipeline made a significant contribution to North Canadian's earnings. With a growing number of customers along its 136-mile route, average daily throughput for the year increased from 16.5 to 17.4 million cubic feet. Net operating revenue from the line increased by approximately 21% over 1975.

In addition to supplying gas to Northwestern Pulp and Power at Hinton, the pipeline's principal industrial customer, the wholly-owned pipeline also serves several smaller industrial users, a large gas distribution company and Gas Alberta, a provincial agency established to supply gas to rural consumers.

The present gas supply contract for the line will expire on April 21, of this year. It is to be replaced by a long term gas purchase agreement with Alberta and Southern Gas Co. Ltd., which will provide for future requirements of up to 30 million cubic feet a day. The Company's gas sales agreement with North Western Pulp & Power, also expires in April. It will be succeeded by a new 20 year agreement, which has already been signed.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS



CHARLES K. LOUGH
Vice-President, Finance

Comparison of 1976 to 1975:

- Gross revenue, excluding the gain on securities, at \$12.5 million, increased \$2.5 million or 25% over 1975. Oil and gas revenue was up 37%, primarily as a result of a 51% increase in the weighted average wellhead price of gas. Pipeline revenue, after deducting the cost of gas, up 21%. Investment income, including the gain on sale of securities, increased 72% and building revenue and miscellaneous income gained 56%.

- Based on higher gas and oil prices, royalties payable to government and others were \$2.5 million versus \$1.6 million. As a percentage of gross oil and gas revenue, royalties were 27% and 24% respectively in 1976 and 1975.

- General administration and operating costs, excluding the cost of gas purchased for resale through the Wabamun - Hinton pipeline, increased to \$1.5 million from \$1.4 million. Although reflecting a 13% increase over 1975, operating and administrative costs, in relation to net operating revenue, decreased by 2.7%.

- The reduction in interest expense from \$371,000 to \$216,000 or 42%, results from the retirement of the bank loan during the first quarter of the year and a reduction in other long term debt.

- An increase of \$50,000 in the depletion provision was offset by a reduction in the pipeline depreciation provision.

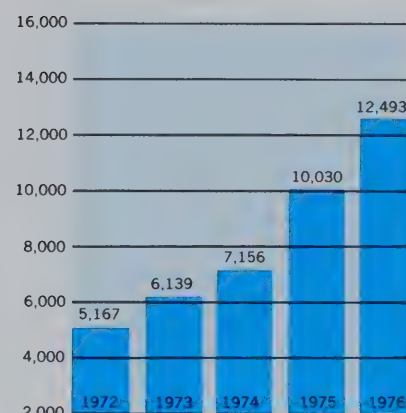
- Total funds from operations available for the payment of taxes, debt retirement, preferred share dividends and exploration and development expenditure were \$7.5 million or \$1.35 per share, compared to \$5.8 million or \$1.02 per share in 1975.

- Net income of \$4,675,000 or 81¢ per common share is up 43% from the \$3,277,000 recorded in 1975. In addition, the Company had a gain on the sale of securities of \$726,000. Net income from all sources reached a new high at \$5,401,000, an increase of 65% over the \$3,277,000 earned in 1975.

- The increase of \$4.3 million in working capital is directly attributable to the decision, by management, to convert \$15 million of 6% St. Regis paper Company convertible notes into 409,496 common shares. During the year the Company sold 90,718 shares for \$4.1 million, realizing a gain on the sale of \$726,000. Of the proceeds, \$2.7 million was applied to the bank loan and the balance used for general corporate purposes. At December 31, 1976, the Company held 318,778 common shares of St. Regis Paper Company.

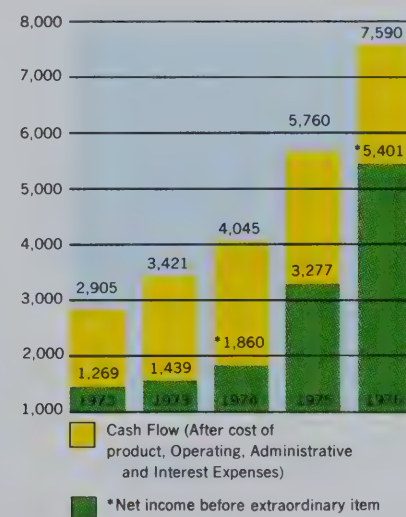
GROSS REVENUES

Thousands of Dollars



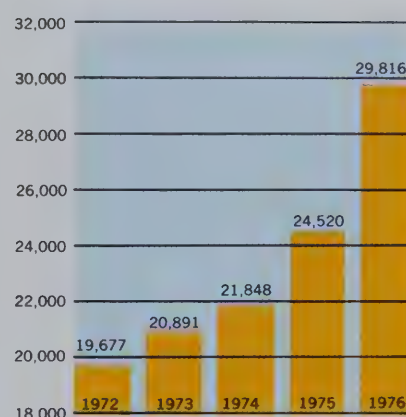
NET INCOME AND CASH FLOW

Thousands of Dollars



SHAREHOLDERS' EQUITY

Thousands of Dollars



- Expenditures for exploration and development in 1976, amounted to \$1.4 million and \$2.8 million respectively, as compared to the corresponding amounts of \$1.5 million and \$1.1 million expended in 1975.

Comparison of 1975 to 1974:

- Total corporate revenue increased by \$2.9 million or 40%. The increase was directly due to a 91% increase in gas production revenue resulting from a 57% increase in the average price paid the Company for its gas coupled with a 21% increase in the volume of sales. Pipeline revenue was higher by 7.6% and investment income was unchanged. Due to the expiration, in mid 1974, of a short-term production sub-lease purchased earlier by the company, 1975 revenue from crude oil production showed a drop of 60% compared to the previous year.

- Royalties, as might be expected were up sharply: \$1,616,000 versus \$606,000.

- Operating and administrative expenses, excluding the cost of gas purchased for resale, were held to an increase of 7.5%.

- Interest expense was down by 11.8% due to the reduction in long term debt.

- The reduction in depletion expense results from the expiration of the short term production lease referred to in the discussion of revenue.

- The increase of \$400,000 in income taxes was directly attributable to the substantial increase in taxable income.

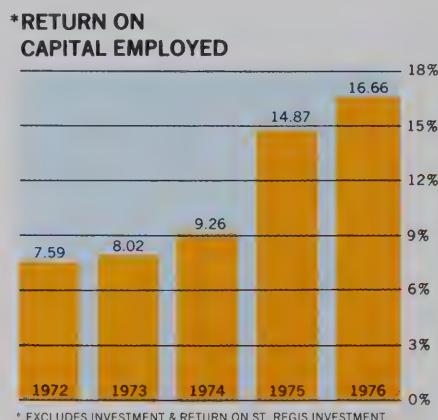
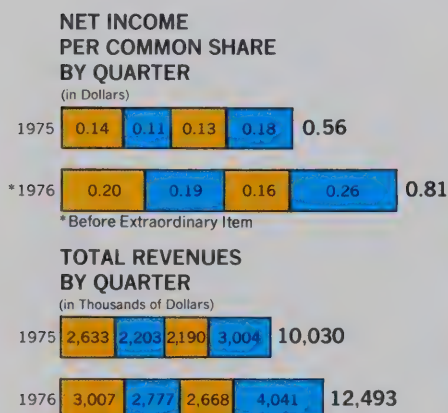
- Cash flow, or internally generated funds available for exploration, development, retirement of debt, preferred share dividends and the

payment of income tax, was \$5.8 million or \$1.02 per share compared to \$4 million or 72¢ in 1974.

- Net income in 1975 was a record \$3,277,000 or 56¢ per share after provision for payment of the preferred share dividend. This was an increase of 76% over the comparable figure of \$1,860,000 or 31¢ per share reported in 1974 before deduction of a non-recurring loss of \$1,174,000.

- Working capital of \$581,000 at the year end was down from the beginning of the year by \$166,000. The decrease was more than offset by the reduction of \$1.8 million or 23% in the Company's long term debt.

- In 1975 the Company spent \$1,502,000 for exploration, an increase of 32%. \$1,122,000 was spent on development, a decrease of 55%.



QUARTERLY FINANCIAL INFORMATION

(Unaudited)

	1976 — Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Total Revenue (after Royalties)	\$2,385,000	\$2,277,000	\$2,123,000	\$3,217,000
Income before income taxes and extraordinary items	\$1,582,000	\$1,525,000	\$1,386,000	\$2,408,000
Income before extraordinary item	\$1,114,000	\$1,051,000	\$ 912,000	\$1,598,000
Net income	\$1,497,000	\$1,198,000	\$ 912,000	\$1,794,000
Income before extraordinary item — per common share	\$0.20	\$0.19	\$0.16	\$0.26
Net income — per common share	\$0.27	\$0.21	\$0.16	\$0.30

FIVE YEAR SUMMARY OF OPERATIONS

(in thousands)

Financial	1976	1975	1974	1973	1972
Revenue					
Sale of oil and gas	\$11,468	\$ 8,999	\$ 6,116	\$ 5,072	\$ 4,081
Less royalties	2,491	1,615	606	407	233
	8,977	7,384	5,510	4,665	3,848
Investment income	820	900	902	918	930
Building rental and miscellaneous	205	131	138	149	156
	\$10,002	\$ 8,415	\$ 6,550	\$ 5,732	\$ 4,934
Expenses					
Operating and administrative	2,196	2,284	2,084	1,881	1,620
Interest	216	371	421	430	409
	\$ 2,412	\$ 2,655	\$ 2,505	\$ 2,311	\$ 2,029
Cash Flow (pre-tax)	7,590	5,760	4,045	3,421	2,905
Per common share	1.33	1.01	72c	61c	52c
Depreciation and depletion	689	701	812	884	612
Income before income taxes and non-recurring loss	6,901	5,059	3,233	2,537	2,293
Income taxes					
Current	1,525	1,319	971	183	134
Deferred	701	463	402	915	890
	2,226	1,782	1,373	1,098	1,024
Net income before under noted	\$ 4,675	\$ 3,277	\$ 1,860	\$ 1,439	\$ 1,269
Per common share	81c	56c	31c	24c	20c
Non-recurring loss	—	—	(1,174)	—	—
Gain on sale of securities	726	—	—	—	—
Net Income	\$ 5,401	\$ 3,277	\$ 1,686	\$ 1,439	\$ 1,269
Per common share	94c	56c	10c	24c	20c
Working capital	4,927	581	747	328	698
Investments	10,000	15,000	15,000	16,165	16,155
Property and Equipment - Net	24,146	20,751	18,848	16,027	14,115
Long Term Debt	2,203	5,409	7,227	6,094	6,712
Shares outstanding					
Common - par value \$.25 per share	5,643	5,629	5,629	5,627	5,618
Preferred - par value \$50 per share	32	35	37	39	42
Shareholder's Equity	29,816	24,520	21,428	20,891	19,674
Cost of Finding and Developing Reserves					
Exploration	1,417	1,502	1,136	1,922	1,035
Development	2,780	1,122	2,453	968	1,427
Production and Sales					
Natural Gas Production — billion cubic feet	17.3	18.8	15.5	14.5	14.3
Average per day — million cubic feet	47.4	51.5	42.5	39.7	39.2
Pipeline —					
Annual throughput, billion cubic feet	6.5	6.0	5.0	4.9	4.8
Oil Production — barrels	45,600	52,500	132,000	226,469	68,919

COMMON STOCK PRICE RANGE

Quarter	TORONTO STOCK EXCHANGE (Can.)		AMERICAN STOCK EXCHANGE (U.S.)	
	1976	1975	1976	1975
1st	6.88 / 4.30	4.95 / 2.60	7- 0/16 / 4- 3/16	5- 0/16 / 2- 9/16
2nd.	9.50 / 5.88	5.38 / 4.10	9-12/16 / 5-10/16	5- 4/16 / 4- 1/16
3rd.	9.25 / 7.50	5.62 / 4.25	9- 6/16 / 7-12/16	5- 6/16 / 4- 1/16
4th	8.00 / 5.88	5.00 / 4.15	8- 2/16 / 6-00/16	5- 0/16 / 4- 1/16



BALANCE SHEET

DECEMBER 31, 1976 AND 1975

ASSETS

	<u>1976</u>	<u>1975</u>
Current Assets:		
Cash and short-term deposits	\$ 2,888,000	\$ 1,168,000
Accrued interest receivable	31,000	383,000
Accounts receivable	2,119,000	1,320,000
Marketable securities, at cost (Note 2)	1,677,000	—
Prepaid expenses	164,000	69,000
Total current assets	<u>6,879,000</u>	<u>2,940,000</u>
Long-term investments:		
Marketable securities, at cost (Note 2)	10,000,000	—
6% St. Regis Paper Company convertible notes.	—	15,000,000
	<u>10,000,000</u>	<u>15,000,000</u>
Property, Plant and Equipment:		
At cost (Notes 1 and 3)	32,502,000	28,454,000
Accumulated depreciation and depletion	8,356,000	7,703,000
	<u>24,146,000</u>	<u>20,751,000</u>
Other assets, at cost.	226,000	176,000
 Approved on behalf of the Board:		
  , Director		
  , Director		
	<u>\$41,251,000</u>	<u>\$38,867,000</u>

See accompanying notes to financial statements.

LIABILITIES

	1976	1975
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,186,000	\$ 1,503,000
Income taxes payable.	279,000	353,000
Long-term debt due within one year.	487,000	503,000
Total current liabilities	1,952,000	2,359,000
Long-term debt (Note 4)	2,203,000	5,409,000
Deferred income taxes	7,280,000	6,579,000
Shareholders' equity (Note 5):		
Capital stock:		
5½ % cumulative redeemable preferred shares, par value \$50 each; authoriz- ed 70,000 shares; issued 32,006 shares (1975 - 34,686 shares)	1,600,000	1,734,000
Common shares, par value \$0.25 each; authorized 7,500,000 shares; issued 5,642,640 shares (1975 - 5,629,165 shares)	1,411,000	1,407,000
	3,011,000	3,141,000
Capital redemption reserve fund	1,900,000	1,766,000
Contributed surplus	2,083,000	1,968,000
Retained earnings.	22,822,000	17,645,000
	29,816,000	24,520,000
Commitment (Note 8)		
	<u>\$41,251,000</u>	<u>\$38,867,000</u>

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
Revenue:		
Gross operating revenues	\$11,468,000	\$ 8,999,000
Less royalties	2,491,000	1,615,000
	8,977,000	7,384,000
Investment income	820,000	900,000
Building revenue and miscellaneous income	205,000	131,000
	10,002,000	8,415,000
Expenses:		
Operating and cost of gas purchased	1,917,000	2,040,000
Administrative	279,000	244,000
Interest on long-term debt	216,000	371,000
Depreciation	290,000	351,000
Depletion	399,000	350,000
	3,101,000	3,356,000
Income before income taxes and extraordinary items	6,901,000	5,059,000
Income taxes:		
Current	1,525,000	1,319,000
Deferred	701,000	463,000
	2,226,000	1,782,000
Income before extraordinary items	4,675,000	3,277,000
Extraordinary items (Note 6)	726,000	—
Net income	<u>\$ 5,401,000</u>	<u>\$ 3,277,000</u>
Income per common share (after preferred share dividends):		
Income before extraordinary items	<u>\$0.81</u>	<u>\$0.56</u>
Net income	<u>\$0.94</u>	<u>\$0.56</u>

See accompanying notes to financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as at December 31, 1976 and 1975 and the statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
February 28, 1977

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants



NORTH CANADIAN OILS LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
Source of funds:		
Net income before extraordinary items	\$ 4,675,000	\$ 3,277,000
Add (deduct) items not requiring an outlay of funds:		
Depreciation and depletion	689,000	701,000
Gain on disposal of fixed assets	(44,000)	(13,000)
Deferred income taxes	701,000	463,000
Funds provided from operations	6,021,000	4,428,000
Proceeds on sale of investments	4,049,000	—
Proceeds on sale of fixed assets	81,000	34,000
Proceeds on issue of common shares	69,000	—
Marketable securities transferred to current assets	1,677,000	—
Total funds provided	11,897,000	4,462,000
Use of funds:		
Expenditures for property, plant and equipment	4,121,000	2,625,000
Reduction of long-term debt	3,206,000	1,818,000
Dividends on preferred shares	90,000	98,000
Redemption of preferred shares	84,000	87,000
Increase in other assets	50,000	—
Total funds used	7,551,000	4,628,000
Increase (decrease) in working capital	4,346,000	(166,000)
Working capital, beginning of year	581,000	747,000
Working capital, end of year	\$ 4,927,000	\$ 581,000

See accompanying notes to financial statements.

STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1976 AND 1975

	1976	1975
Balance, beginning of year	\$17,645,000	\$14,594,000
Net income for the year	5,401,000	3,277,000
	23,046,000	17,871,000
Deduct:		
Dividends on preferred shares	90,000	98,000
Transfer to capital redemption reserve fund	134,000	128,000
	224,000	226,000
Balance, end of year	\$22,822,000	\$17,645,000

See accompanying notes to financial statements.



NORTH CANADIAN OILS LIMITED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1976

1. ACCOUNTING POLICIES:

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and overhead expenses related to exploration activities. All such costs are being amortized on a composite unit-of-production method based on estimated proven recoverable reserves as determined by independent engineers. The office building and other equipment are depreciated over the estimated useful lives of the assets. The pipeline is being depreciated over the life of the existing gas contract.

2. INVESTMENTS:

During 1976 the Company converted \$15,000,000 of St. Regis Paper Company convertible notes into 409,496 shares (\$36.63) of St. Regis common stock. 90,718 shares were sold during the year (Note 6) and the quoted market value of the remaining 318,778 shares held at year end was approximately \$12,313,000 (U.S.).

3. PROPERTY, PLANT AND EQUIPMENT:

	1976		1975	
	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>	<u>Cost</u>	<u>Accumulated Depreciation and Depletion</u>
Petroleum and natural gas leases, rights, exploration, and development costs and related equipment thereon	\$27,157,000	\$ 4,398,000	\$23,097,000	\$ 3,844,000
Land, pipeline, building and other equipment	5,345,000	3,958,000	5,357,000	3,859,000
	<u>\$32,502,000</u>	<u>\$ 8,356,000</u>	<u>\$28,454,000</u>	<u>\$ 7,703,000</u>

4. LONG-TERM DEBT:

	1976		1975	
	Due Within One Year	Long-Term Portion	Due Within One Year	Long-Term Portion
6% Series A Secured Notes maturing October 1, 1979	\$ 250,000	\$ 1,105,000	\$ 250,000	\$ 1,355,000
5½ % Series B Secured Notes (\$1,253,000 U.S., 1975 \$1,483,000 U.S.) maturing October 1, 1979	232,000	1,098,000	233,000	1,345,000
6% Mortgage, repayable in quarterly instalments of \$5,000 plus interest, maturing March 1, 1977.	5,000	—	20,000	5,000
Bank loan	—	—	—	2,700,000
5½ % Mortgage, due March 5, 1982	—	—	—	4,000
	<u>\$ 487,000</u>	<u>\$ 2,203,000</u>	<u>\$ 503,000</u>	<u>\$ 5,409,000</u>

The 6% mortgage is secured by the office building

The Series A and B notes are secured by a first mortgage on the Company's gas pipeline, its interests in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments are required on October 1 of each of the following years:

	Series A (Canadian)	Series B (U.S.)
1977.	\$ 250,000	\$ 230,000
1978.	250,000	230,000
Balance in 1979	855,000	793,000

These notes may be redeemed prior to maturity at a premium of 1.0% (Canadian) on Series A notes and .9% (U.S.) on Series B notes. The premium then decreases .5 of 1% per year and .46 of 1% per year on Series A and Series B notes respectively with no premium on redemptions made after October 1, 1978.

The current portion of the Series B notes has been converted to Canadian dollars at the rate of exchange in effect on December 31, 1976. The long-term portion represents the Canadian dollar equivalent of U.S. dollars on the date of receipt.

5. CAPITAL STOCK AND STOCK OPTIONS:

PREFERRED SHARES REDEEMED:

Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation, 2,000 preferred shares in each year. The shares may be redeemed at par from the holders on 30 days notice or purchased on the market.

At December 31, 1976, the requirements had been met and in addition 2,000 shares applicable to June 1, 1977 and 1,994 shares applicable to June 1, 1978 have been cancelled (2,680 were purchased and cancelled in 1976). In connection with the redemption of the preferred shares, \$134,000 and \$129,000 was transferred to the capital redemption reserve fund for 1976 and 1975 respectively. The difference between the acquisition cost and the par value of the preferred shares redeemed, in the amounts of \$50,000 and \$41,000 has been credited to contributed surplus for 1976 and 1975 respectively. The preferred share indenture imposes certain restrictions on the payment of common share dividends.

COMMON SHARES ISSUED:

	<u>1976</u>	<u>1975</u>
Shares issued under stock option plan	13,475	—
Consideration credited to:		
Capital stock	\$ 4,000	—
Contributed surplus	<u>65,000</u>	<u>—</u>
	<u>\$69,000</u>	<u>—</u>

STOCK OPTION PLAN:

Options granted	—	10,800
Options exercised	13,475	—
Options expired	—	10,000
Options outstanding at December 31	12,325	25,800
Option price	\$3.56-\$5.99	\$3.56-\$5.99

The options are exercisable cumulatively in three equal instalments within a five-year period with the first instalment exercisable one year after date of granting the option. Under the provision of the plan no further options can be granted.

Payment for shares issued under the stock option plan was accepted by the Company in the form of notes receivable. The notes, which are secured by the purchased shares, are non-interest bearing until they mature, at which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. The notes receivable in the amount of \$182,000 at December 31, 1976 and \$140,000 at December 31, 1975 (of which \$157,000 and \$112,000 at December 31, 1976 and 1975 respectively is due from directors, officers and a retired officer) are carried on the balance sheet under other assets.

6. EXTRAORDINARY ITEMS:

Extraordinary items consist of the following:

Gain on part disposal of St. Regis Paper Company common shares net of income tax of \$172,000	\$554,000
Reduction of income taxes on application of capital losses brought forward	<u>172,000</u>
	<u>\$726,000</u>

7. STATUTORY INFORMATION:

Directors and senior officers (comprising a group of twelve in 1976 and eleven in 1975, including the five highest paid employees) of the Company received remuneration amounting to \$198,000 in 1976 and \$184,000 in 1975.

8. COMMITMENT:

Pursuant to an agreement dated October 1975, with the Government of India, the Company is committed to the expenditure of a minimum of \$1,083,000 (U.S.) through to October 1978.

9. ANTI-INFLATION ACT:

Effective October 14, 1975, the Federal Government enacted a program of restraint on prices, profits, dividends and compensation. The Company does not come under the mandatory aspects of the program other than those provisions pertaining to the payment of dividends.

DIRECTORS

J. TREVOR EYTON, Q.C. †
Partner, Tory, Tory, DesLauriers & Binnington
Toronto, Ontario

CHARLES M. HAMILTON*
Business Consultant
Calgary, Alberta

MARSHALL A. JACOBS
Senior Partner, Jacobs Persinger & Parker
New York, New York

JAMES F. KAY †
Chairman of the Board
Dylex Limited
Toronto, Ontario

ALAN R. KEEVIL #
Vice-President
Teck Corporation Limited
Calgary, Alberta

DR. NORMAN B. KEEVIL, JR. #
Executive Vice-President
Teck Corporation Limited
Vancouver, British Columbia

CHARLES K. LOUGH
Vice-President, Finance and Secretary of the Company
Calgary, Alberta

ROSS A. MACKIMMIE, Q.C.
Senior Partner, MacKimmie Matthews
Calgary, Alberta

HAROLD P. MILAVSKY †
President & Chief Executive Officer
Trizec Corporation Ltd.
Calgary, Alberta

ROBERT F. RUBEN
President and Chief Executive Officer of the Company
Calgary, Alberta

IVAN K. SUTHERLAND
Consultant
Hinton, Alberta

ROBERT J. WRIGHT #
Partner, Lang, Michener, Cranston, Farquharson & Wright
Toronto, Ontario

* Resigned, October 6, 1976

Resigned March 18, 1977

† Appointed March 18, 1977

FORM 10K

North Canadian Oils Limited will furnish upon written request, to any registered shareholder without charge, a copy of its most recent Annual Report — Form 10K, as filed with the United States Securities and Exchange Commission.

OFFICERS

ROBERT F. RUBEN
President and Chief Executive Officer

D. F. CHRISTENSEN
Vice-President, Exploration

NATHAN GOODMAN
Vice-President, Production

CHARLES K. LOUGH
Vice-President, Finance and Secretary

KEY PERSONNEL

W. K. MILLER
Manager, Gas Transmission

B. M. WYLIE
Land Manager

B. L. COOK
Supervisor, Land Administration

D. E. MACDOUGALL
Chief Geologist

CAPITAL

7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share

Issued 5,642,640

70,000 Preferred Shares having a Par Value of \$50.00 per Share
Issued 32,006

COMMON SHARE REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA,
Calgary and Toronto

The BANK of NOVA SCOTIA TRUST COMPANY of NEW YORK,
New York City, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA,
Calgary and Toronto

COMMON SHARES LISTED

TORONTO STOCK EXCHANGE (NCOT)
AMERICAN STOCK EXCHANGE (NCD)

PREFERRED SHARES LISTED

TORONTO STOCK EXCHANGE

AUDITORS

PEAT, MARWICK, MITCHELL & CO., Calgary, Alberta

Bank Affiliations

The Mercantile Bank of Canada
Calgary, Alberta

THE BANK OF NOVA SCOTIA,
Calgary, Alberta

HEAD OFFICE

640 Seventh Avenue Southwest, Calgary, Alberta T2P 0Y5

THIRTIETH ANNUAL REPORT 1976



NORTH CANADIAN OILS LIMITED
640 Seventh Avenue Southwest, Calgary, Canada T2P 0Y5
Telephone (403) 262-3951